SEATTLE EMPLOYEES' RETIREMENT SYSTEM

NEWSLETTER

FOR ACTIVE AND RETIRED MEMBERS SUMMER 94

FROM THE DIRECTOR

This newsletter is one of a series which is designed to address the long recognized need to establish a communications program for the 8,300 active and 4,600 retired members of the Seattle City Employees' Retirement System. Webster defines communication as "the giving or exchanging of information". Our emphasis will be on exchange. Please tell us what kind of information you would like to see in this publication? We sincerely hope to hear from you. You may write to me at:

Roger A. Howeiler, Executive Director
The Seattle City Employees' Retirement System
801 Third Avenue, Suite 300
Seattle, WA 98104-1652

I get many varied questions from our members and retirees. The following lists a number of the most frequently asked questions along with my response:

Question: The Retirement System has approximately $800,000,000 in assets. Why can't we pay for a cost-of-living adjustment (COLA) from these funds instead of from increased contribution rates?

Answer: As of January 1, 1992 our actuaries determined that we will require $357,900,000 to pay the pensions of current retirees; and we will require $452,600,000 to pay the accrued benefits of current active members. These benefits represent a total of $810,500,000 in liabilities. As of January 1,1992 we had assets of $660,000,000. The difference between the liabilities and the assets reflect a deficit, or unfunded liability of $150,500,000. Of the 8.91% City contribution rate, 2.33% is being set aside to pay off this unfunded liability over the next 33 years. However, until it is paid, and the Retirement System is fully funded, it would not be prudent to use available assets to pay for a COLA. The Retirement Board has a legal fiduciary responsibility to fund the Retirement System in a prudent manner, and can not use assets to pay for additional benefits when current obligations are not yet funded.

Question: In 1992 the Retirement System had a net income of $43,895,733. Why can't we pay for a COLA with these excess earnings?

Answer: In 1992 the Retirement System received employee contributions in the amount of $21,564,881, City contributions of $25,117,924, and investment earnings of $41,792,730, for a total of $88,475,535. We paid pensions and expenses of $44,579,802 leaving us with a net income of $43,895,733. The investment earnings almost offset the pensions and expenses paid, but the employee and City contributions are needed to fund the additional pension rights earned by current employees in 1992, and to pay off the current unfunded liability. We have experienced a high return on investments in recent years. However this has been offset by the negative financial effect of the increased life span of members, as well as other negative demographic experience.

(continued next page)

Question: If you are retired and return to work for the City of Seattle will your pension be effected?

Answer: A retiree may be employed on temporary status for 1040 hours or less in a calendar year without any effect on his/her pension. A retiree employed on permanent status, or employed on temporary status for over 1040 hours in a calendar year, will continue to receive the portion of his/her pension that was funded by his/her contributions. But the portion that was funded by City contributions will be suspended during the period of employment except for the amount the total pension shall exceed the salary for the same period of employment.

Question: Does your City pension effect your Social Security pension, and visa versa?

Answer: No, neither will be effected by the other in any way.

Question: Explain how the December bonus amount is determined:

Answer: Each December the monthly retirement allowances increase to reflect an annual bonus payment to help offset the adverse effects of inflation. The bonus payment is a percentage factor based on the number of years retired, times the total pension paid during the year. The percentage factors were designated to more equitably offset the effects of inflation on members who have been retired the greatest length of time. They are as follows:

1% of the current annual pension allowance for members who retired in the current year or immediately preceding year.

3% of the annual pension allowance for members who have been retired from two to five years, inclusive.

6% of the annual pension allowance for members who have been retired from six to nine years, inclusive.

9% of the annual pension allowance for members who have been retired from ten to thirteen years, inclusive.

12% of the annual pension allowance for members who have been retired from fourteen to eighteen years, inclusive.

15% of the annual pension allowance for members who have been retired from nineteen to twenty three years, inclusive.

18% of the annual pension allowance for members who have been retired from twenty-four to twenty-eight years, inclusive.

21% of the annual pension allowance for members who have been retired from twenty-nine years or more.

Example: If your pension is $1,000 per month and you have been retired for eleven years, your bonus dividend would be calculated as follows:

$ 1,000 x 12 months = $12,000
$12,000 x 9% = $1,080
$ 1,080 would be your bonus for that particular year.

(continued next page)

Question: Who has the authority to make decisions regarding the Retirement System?

Answer: The Executive Director makes all administrative decisions. The Board of Administration makes all policy decisions. If a policy change requires a modification of the Seattle Municipal Code, the change must be approved by the City Council and Mayor. Changes in the Seattle Municipal Code are required for benefit modifications such as a COLA or a change in the retirement contribution rate.

Question: How does the Retirement System decide what investments to make? What happens if we don't earn our actuarial assumed rate of return?

Answer: The Retirement Board retains a consultant to perform an asset allocation study. The study indicates the percentage of the fund to invest in each asset category. The Board then retains investment managers to make specific buys and sells of securities. Our actuaries have assumed that we will earn 7% per year on our investments. If the 7% actuarial rate of return is not realized in any one year it poses no problem. If many years of under performance occur, then additional contributions must be made by the City. In the past we have had no problem in meeting our actuarial assumed rate of return.

A BRIEF HISTORY OF THE RETIREMENT SYSTEM

The City of Seattle established the then named Seattle Civil Service Employees' Retirement System effective, July 1, 1929 and did so based on a, March 8, 1927 amendment to the City Charter. In 1929, the Retirement Board hired a young actuary named Wendell Milliman to be its first Executive Director (then called actuary). Later in his career, Wendell Milliman founded Milliman and Robertson, Inc., which today is one of the largest actuarial firms in the world.

In December of 1929, Charles Oliver was hired to replace Wendell Milliman. Charlie worked as Executive Secretary of the Retirement System until he retired on April 29, 1967, and was replaced by Al Lunn. Al Lunn retired in June of 1982 and was replaced by Roger A. Howeiler, who is the current Executive Director.

Helen Jay was hired as a Clerk-Stenographer on, July 5, 1929 and worked in the Retirement Office until she retired on, May 1, 1972. Tony Marino was employed in the Retirement Office from 1929 until 1933, when he founded the City Credit Union and remained its president until he retired August 31, 1971. Tony Marino was appointed to the Retirement Board in June of 1970, and served on the Board until October of 1989. Frank Mathews was promoted to president of the City Credit Union when Tony Marino retired in 1971, Frank remained president until he retired May 1, 1992. In August of 1992, Frank Mathews was appointed to the Retirement Board, and in June of 1994 he was re-appointed to another 3 year term on the Board.

The first order of business for the Retirement Board in 1929 was to determine the date of birth of many City employees who had not needed to establish this earlier in their career. In the absence of official documents, Bible records or witnesses were often used to establish the birth date. Birth dates are very important as the retirement contribution rate, retirement eligibility and pension allowance are based on the age of the employee. In 1929, pensions averaged about $35.00 per month, with a $25.00 minimum.

Notice to the Terminally Ill:

The Retirement Board is considering the merits of allowing active members who have a terminal illness the option of withdrawing from retirement membership and receiving a refund of their contributions while continuing to work for the City. If a member elects to withdraw, he/she gives up all rights to retirement benefits, and may be subject to IRS penalties. The member's spouse, if any, must also agree to the withdrawal. The Board is also exploring the time period in which the illness would be deemed terminal. The Retirement Board would appreciate any comments you may have relative to this issue. Please direct written or oral comments to the Retirement Office. If you wish to testify before the Board, the next meeting will be held Tuesday, August 9, 1994, in room 740 of the Arctic Building, at 9:30 A.M.

How are we doing?

I would appreciate your comments, pro and con, relative to the service you have received from the Retirement System staff. Please direct your comments either orally or in writing, to Roger A. Howeiler in the Retirement Office.

Seattle City Employees' Retirement System
801 Third Avenue, Suite 300
Seattle, Washington 98104-1652

IF YOU LEAVE CITY EMPLOYMENT WHAT HAPPENS TO YOUR CONTRIBUTIONS?

- If you have five years of retirement membership you may leave your funds in your account, this is called vesting. Those funds will accrue interest at 5.75% until you withdraw them or draw a pension at retirement age.

- You may withdraw your funds **only** by filling out a withdrawal application from our office. After the application is received, the process takes approximately six to eight weeks. Twenty percent will be deducted for income tax purposes. At the time you file your income tax, the IRS may assess a ten percent penalty, for withdrawing from a retirement account.

- You may roll your funds into another qualified retirement account. To do this you must fill out the same withdrawal form as mentioned above and also a direct transfer form. No tax or penalty will be assessed.

- Withdrawals from the retirement fund are contingent upon: 1.) Your separation from city employment by layoff, termination or resignation and; 2.) Your department putting through the paperwork (i.e., Employee Service Record) that says you have separated. It is to your benefit to make sure your Personnel Department processes this paperwork.

- If you have any questions, please contact Tina at 386-1292.

SIDE NOTE ABOUT RETIREMENT

- If possible, go to the *Retirement Seminar* offered by Personnel Training.
- Call the retirement office to get an *estimate* prior to retiring.
- Bring *Social Security numbers* for you and your spouse.
- Your *marriage license* and *birth certificates* are required if choosing option "D" or "E".
- Research other medical plans, you may pay less on an individual plan.
- Contact *Social Security*. Retiring does not automatically start your Social Security benefits.
- Washington is a community property state, your spouse is required to sign the retirement application.
- If you have any questions, contact our office at (206) 386-1292.